

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6592

BILL NUMBER: HB 1303

NOTE PREPARED: Jan 18, 2012

BILL AMENDED:

SUBJECT: Nonresident Income Tax for Gary.

FIRST AUTHOR: Rep. Brown C

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill authorizes the Gary city council to impose a municipal employment opportunity tax upon nonresident individuals who work in Gary. It provides that the tax may not exceed 1% of the individual's adjusted gross income derived from the covered individual's principal place of business or employment. It provides that the tax revenue must be used for infrastructure repair and improvements or public safety expenditures, or both. It permits the tax revenue to be pledged to repay bonds or lease rentals related to infrastructure or public safety. It permits the municipal employment opportunity tax to be used to pay outstanding indebtedness if the city of Gary fails to make required payments. It also permits the state to intercept the taxes for noncompliance with certain data requirements.

Effective Date: July 1, 2012.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to implement collection of the municipal employment opportunity tax in Gary. It is unknown whether they can tract nonresident individuals with modifying current software or if they will need to purchase software to assist in the collection of this tax.

Background: DOR is also currently investigating software to track taxpayers by municipalities. One possible software program that could be used to implement this provision on a *statewide* basis is estimated to cost \$750,000 with ongoing annual costs of \$350,000, consisting of \$150,000 for software maintenance and \$200,000 for staff.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Gary Municipal Employment Opportunity Tax:* The bill permits the city of Gary to impose the income tax beginning as early as October 1, 2012. The tax would apply to individual taxpayers who are not residents of Gary, but whose principal place of business or employment is located in Gary. The maximum rate at which the tax may be imposed is 1%. While wage and employment data on firms located in Gary is available, data indicating the percentage of workers at Gary businesses who are nonresident commuters is unavailable. Assuming 10% to 25% of workers at Gary businesses are commuters, it is estimated that a 1% income tax on commuter income could potentially generate \$1.5 M to \$3.6 M annually.

To impose or increase the tax no later than December 1st of a year, the Gary Common Council must adopt an ordinance doing so before November 1st. If the Common Council adopts the ordinance prior to October 1st, the tax or tax increase is effective on October 1st. The tax remains in effect until rescinded by the Common Council.

The bill provides that revenue from the tax may be used for:

- (1) repair, maintenance, or improvement of infrastructure;
- (2) public safety expenditures
- (3) payment of bonds for which tax revenue is pledged for capital improvements to infrastructure or public safety;
- (4) payment of leases for which tax revenue is pledged for capital improvements to infrastructure or public safety; or
- (5) refinancing bonds issued and leases described in (3) and (4) above.

State Agencies Affected: Department of State Revenue; State Budget Agency.

Local Agencies Affected: Gary.

Information Sources: OFMA ES-202 Databases, 2nd Quarter 2010 to 1st Quarter 2011.

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